

# Ginnie Mae

Government National Mortgage Association



## ANNUAL REPORT 2000



Ginnie Mae  
U.S. Department of Housing and Urban  
Development  
Washington, D.C. 20410-9000

April 2001  
HUD-2001-19-GNMA





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## GINNIE MAE'S MISSION

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To support expanded affordable housing in America by providing an efficient government-guaranteed secondary market vehicle linking the capital markets with Federal housing markets.

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“Housing is at the heart of HUD’s mission, and President Bush and I are committed to making that mission a success. That’s why Ginnie Mae is an integral part of the Department’s plans to increase homeownership. Through its support of the secondary mortgage market and its “full faith and credit” guarantee, Ginnie Mae helps channel funds from Wall Street investors to private mortgage lenders. Since 1968 it has helped more than 25 million American families and individuals become homeowners.”

Mel Martinez  
Secretary

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The Honorable Mel Martinez  
Secretary  
United States Department of Housing and Urban Development  
Washington, DC 20410

Dear Mr. Secretary:

I am pleased to present to you the Annual Report and the audited financial statements of the Government National Mortgage Association (Ginnie Mae) for the fiscal year ended September 30, 2000. Ginnie Mae, once again, received an unqualified opinion from its independent auditors, KPMG LLP, with no findings of material weaknesses or reportable conditions. Ginnie Mae continues to be a strong and integral part of the Department.

During fiscal year 2000, Ginnie Mae reached approximately \$1.7 trillion in original issues of mortgage-backed securities guaranteed since 1970. We are quite proud of our continuing accomplishments and our important role in helping to meet HUD's commitment to support affordable homeownership for low- and moderate-income families in America. Our role in the secondary mortgage market provides an important public benefit to Americans fulfilling their dream of homeownership, regardless of economic conditions.

Ginnie Mae's strong financial performance continued in fiscal year 2000. Operating results for the year exceeded historic performance levels. Our mortgage-backed securities outstanding totaled \$603.5 billion in fiscal year 2000, a \$33.9 billion or 6 percent increase from fiscal year 1999. Ginnie Mae's net revenues were \$762.8 million in fiscal year 2000, a 2 percent increase—and a record—as compared to \$746.8 million in fiscal year 1999. Ginnie Mae's mortgage-backed securities program guaranteed the issuance of \$105.5 billion in mortgage-backed securities last year, thereby providing capital for the purchase or refinance of approximately 1.1 million homes, including multifamily units. We are extremely proud that, over its lifetime, Ginnie Mae's mortgage-backed securities have financed homeownership opportunities for 25.5 million American families. Ginnie Mae's excellent performance over many years is a fundamental indicator of our ability to manage risk and increase stability in the marketplace.

Ginnie Mae continues to fulfill its mandate to promote access to mortgage credit throughout the nation by increasing the liquidity of investment capital available to the residential mortgage finance market. Ginnie Mae's Targeted Lending Initiative (TLI) has been tremendously effective in helping to increase homeownership levels in targeted central city communities by focusing additional investment funding on targeted underserved areas. In fiscal year 2000, \$3.4 billion in targeted lending pools were issued. Additionally, Ginnie Mae expanded its TLI to include Rural Empowerment Zones and Rural Enterprise Communities, an important vehicle for lenders who may now offer more competitive interest rates on mortgages for properties located in the targeted areas.

Ginnie Mae's Real Estate Mortgage Investment Conduit (REMIC) product continues to play a major role in increasing liquidity and the availability of mortgage funds to low- and moderate-income and first-time homebuyers. The REMIC program was designed to greatly improve the availability of funds and has met its challenge. In 2000, for the second year in a row, this product recorded its highest ever income and production levels with gross guaranty fee income of \$25 billion generated by 44 REMIC transactions. Ginnie Mae is pleased with REMIC's contribution to expanding affordable housing and expects continued growth with this product through product innovations, program enhancements, investor education, and competitive pricing. Ginnie Mae remains committed to increasing liquidity and efficiencies in its multiclass securities program.

Ginnie Mae's commitment to, and presence in, the capital markets provide continuous opportunities to meet new challenges, to seek greater efficiencies and economies of scale, and to further refine our efforts to achieve the corporation's mission and goals. Ginnie Mae is a committed partner to the private sector in meeting our objectives for increased liquidity and a stable market. Ginnie Mae is proud of its role as a market innovator, as we continuously seek new, creative ways to meet our goals. Ginnie Mae's strong relationships with the private sector allow us to complement private market operations, utilizing the full faith and credit guaranty of the United States Government where needed, yet not compete with private firms.

The enclosed Annual Report provides more detail on our important programs and initiatives, our performance in fiscal year 2000, and the stewardship of our funds and other resources. Ginnie Mae's management initiatives include a strengthened emphasis on performance and accountability through a commitment to the Government Performance and Results Act (GPRA). We are proud of our continued accomplishments and of the Department's historic role in helping to make the American dream of homeownership a reality for millions of low- and moderate-income American families.



Sincerely,

A handwritten signature in dark ink that reads "George S. Anderson". The signature is fluid and cursive, written in a professional style.

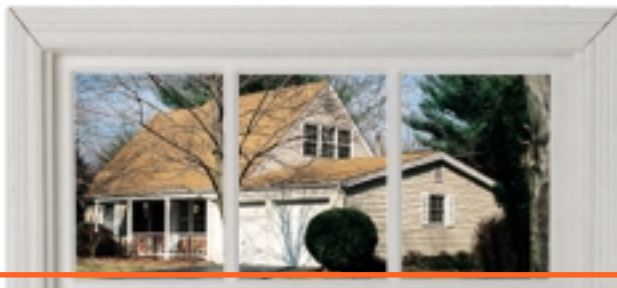
George S. Anderson  
Executive Vice President

I.

## Overview of Ginnie Mae

The Government National Mortgage Association (Ginnie Mae), through its full faith and credit of the United States guaranty, has helped to finance homeownership opportunities for 25.5 million American families. Ginnie Mae guarantees the timely payment of principal and interest on securities issued by private institutions and backed by pools of Federally-insured or guaranteed mortgage loans. In fiscal year 2000, Ginnie Mae-guaranteed securities financed 86.2 percent of all eligible loans insured or guaranteed by the Department of Housing and Urban Development (HUD), the Federal Housing Administration (FHA), the Department of Veterans Affairs (VA), the Rural Housing Service (RHS), and the HUD Office of Public and Indian Housing (PIH). Ginnie Mae receives no funds from general tax revenues. Operations are financed by a variety of fees, including Guaranty Fees, New Issuer Fees, Commitment Fees, Handling Fees, and Transfer of Servicing Fees. Over 95 percent of Ginnie Mae's fee income is generated by its Guaranty and Commitment Fees that are paid by participating issuers.

Through a 1968 amendment to Title III of the National Housing Act, Ginnie Mae was established as a wholly-owned government corporation within HUD to promote access to mortgage credit throughout the nation. Ginnie Mae is administered by the Secretary of HUD and the President of Ginnie Mae, who are both appointed by the President of the United States and confirmed by the United States Senate.



Ginnie Mae serves the American public and the housing industry by helping to ensure a stable lending environment that leads to affordable rates and increased opportunities for more Americans to own their own home. Ginnie Mae provides liquidity to the secondary mortgage market by attracting capital from the nation's capital markets into the residential mortgage markets. This activity helps to keep mortgage rates lower and to make more mortgages available.

From its dynamic beginning, Ginnie Mae emerged as the pioneer in the development of the Mortgage-Backed Securities (MBS) program. The MBS program provides a vehicle to efficiently and effectively generate capital by providing lenders with the liquidity to maintain a steady supply of credit available for housing. This availability of capital, backed by the full faith and credit guaranty of the U.S. Government, has directly contributed to the nation's record high homeownership.

Today, the mortgage finance industry faces new challenges that demand creative leadership and innovative solutions. These challenges include competitive pressures that increase risks, industry consolidation, and the implications of new technology. Ginnie Mae helps the industry to meet these challenges and simultaneously support HUD's goal of providing low-cost mortgage credit to traditionally underserved sectors of the housing market. Ginnie Mae's mission and goals, as well as its programs, products and initiatives for fiscal year 2000, are described in the following pages.

# II.

## Corporate Goals

Ginnie Mae's mission and strategic vision have been captured in these overarching goals. These goals guide the organization in the prioritization of its resources and activities to focus on outcomes rather than outputs and processes. The goals to which Ginnie Mae holds itself accountable are stated below.

### Goal 1: Excellence in Customer Service

Ginnie Mae will provide excellent service to its customers. "Customers" shall include program participants (e.g., issuers and investors) and other stakeholders (e.g., homeowners and prospective homeowners, taxpayers, securities holders, FHA, VA, RHS and HUD PIH).

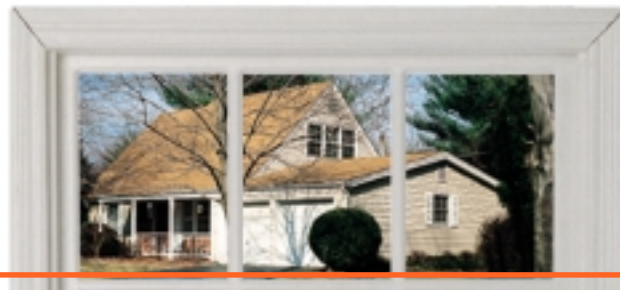
### Goal 2: Leadership Role in the Industry

Ginnie Mae will play a leadership role in the affordable lending marketplace. Leadership includes taking action to increase affordable homeownership and rental housing nationwide through the introduction of new products and expansion of affordable mortgage credit.

### Goal 3: Integrity and Excellence in Financial Management

Ginnie Mae will manage its financial risk.

Ginnie Mae believes that, through adherence to these important goals, it can faithfully meet its mission and achieve its vision, while responding effectively to the needs of the American public and the mortgage industry. While Ginnie Mae has always delivered public benefits through its pivotal role in the affordable lending marketplace, it is also a strong market innovator. For instance, in 1970



Ginnie Mae was the first to issue MBS and continues to seek enhancement and improvements to this product. In recent years, the Targeted Lending Initiative (TLI) program has exemplified Ginnie Mae's approach to market innovation: Ginnie Mae's program complements and supports private market operations and avoids supplanting them. Thus, the TLI program rewards lenders in underserved areas without an elaborate set of regulations or compliance requirements. Lenders are automatically credited through the GinnieNet system if they qualify for the program. While this program increases market liquidity, market incentives are not altered in any way that might limit investment by the same lenders in other housing markets.

# III.

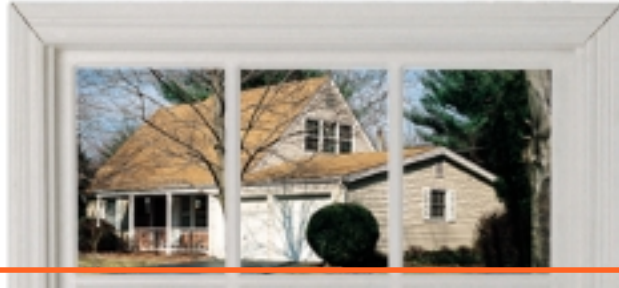
## Organization and Technology Improvements

Ginnie Mae, as part of its commitment to excellence in customer service, continued to improve program and product services and outreach to issuers and other program participants in fiscal year 2000. In 1996, Ginnie Mae began an improvement program designed to make its organization and infrastructure more efficient and effective in serving customers. These improvements have continued through fiscal year 2000, as Ginnie Mae has streamlined its processes and provided greater flexibility in its guidelines and regulations to meet corporate goals. The resulting efficiencies are providing substantial savings to the mortgage market.

In addition, Ginnie Mae has undertaken numerous initiatives to improve the quality of service provided to its partners and stakeholders. Ginnie Mae has made a commitment to focus on the following areas:

**Performance Measurement.** Ginnie Mae is working to design and implement a performance measurement program. This will not only strengthen Ginnie Mae's compliance with the Government Performance and Results Act (GPRA), it will leverage the organization's ability to meet its objectives on behalf of all Americans and the private sector marketplace. Through the disciplined process of performance measurement, a system used by virtually all successful organizations, Ginnie Mae will be better positioned to link its mission to programs and performance.

**Contractor Oversight.** Ginnie Mae is taking a proactive approach to the oversight of its contractors to ensure that current operating procedures minimize risk to Ginnie



Mae. This approach has proven invaluable in protecting Ginnie Mae's assets, strengthening internal controls, leveraging performance and ensuring accountability.

**Communication.** Ginnie Mae's strong relationship with the private sector marketplace allows it to develop and maintain effective communications with many business partners. Effective communication has been an important component of Ginnie Mae's efforts to create increased liquidity in the secondary mortgage marketplace. The importance of our business partners to organizational goals means that we are continually seeking new ways to build relationships, to communicate about new products and overall market needs, and to raise awareness of our ultimate goal of helping Americans achieve homeownership.

**Training.** Ginnie Mae's goals can best be served by supporting knowledgeable and motivated staff and business partners. Ginnie Mae encourages training for its business partners and recognizes that rapid changes in the marketplace require continued training and education to ensure the continued effectiveness of the public benefit we provide.

**Capital Markets Participants.** Ginnie Mae recognizes a special obligation to its Capital Markets participants. Through its Capital Markets Division in Washington, D.C. with a site office in New York City, Ginnie Mae helps customers to respond more effectively to critical issues such as increased market volatility. Ginnie Mae has undertaken several new initiatives designed to support Capital Markets customers and is dedicated to supporting their needs.

Leveraging Cross-cutting Initiatives. Ginnie Mae's mission of helping low- and moderate-income Americans gain access to home mortgages is just part of HUD's—and the federal government's—efforts to improve housing and economic development in the United States. Ginnie Mae is committed to working with HUD, with other federal entities, and with other public and private sector organizations to leverage cross-cutting programs and objectives in support of better housing and economic development.

### Organizational Structure

Ginnie Mae's organizational structure was developed to help the corporation respond more effectively to change, focus resources on mitigating and managing its business risks, provide improved customer services to issuers, and improve contractor oversight. Ginnie Mae works closely with a variety of public and private organizations, including other HUD offices, other Federal agencies, and the mortgage banking industry.

The following is a brief description of Ginnie Mae's program offices:

The Office of Customer Service facilitates corporation effectiveness by serving as a single point of contact to the issuer community. Ginnie Mae account executives manage the relationship with 595 approved issuers of MBS. Additionally, the Office monitors the MBS single family program to ensure the smooth flow of funds from investors to issuers for the benefit of homeowners. The Office approves new participants, monitors the activities of program participants, and takes actions to assure that program integrity is maintained at the highest possible level. It also identifies and promotes leading-edge approaches to doing business more innovatively in the dynamic secondary mortgage market. To that end, the Office was instrumental in promoting the highly successful Targeted Lending Initiative and developing industry forums on conducting business more

effectively in order to lower the financing costs to low- and moderate-income homebuyers.

Ginnie Mae account executives are available to help customers with all matters pertaining to Ginnie Mae programs. For assistance to customers, account executives can be reached by calling the following numbers:

- Single Family MBS Issuers  
(202) 708-1535
- Manufactured Housing MBS Issuers  
(202) 708-1535
- Ginnie Mae Capital Markets  
(202) 401-8970
- GinnieNet and gREX Customer Service  
(800) 234-GNMA
- Ginnie Mae Hotline  
(888) Ginnie4

The Office of Finance manages a variety of financial activities for Ginnie Mae. The Office maintains management and operational internal controls for Ginnie Mae, ensures compliance with the reporting requirements of the Federal Managers' Financial Integrity Act and the Chief Financial Officers Act, and provides accounting and financial reporting services. This Office manages the investment of Ginnie Mae funds, prepares and monitors the execution of Ginnie Mae's budget, and oversees the management of acquired defaulted assets. It also coordinates the independent audit of Ginnie Mae, monitors financial risk, and manages and coordinates field audits and reviews of master subservicers and major contractors to minimize risk to Ginnie Mae. For instance, during fiscal year 2000, the Office managed and coordinated 14 contract compliance and internal control reviews of its major contractors. These reviews were conducted to determine if the contractors complied with the terms of their contracts with Ginnie Mae. During these reviews, verification was made that the bills were accurate and internal controls were reviewed to ensure that the contractors' current operating

procedures minimized risk to Ginnie Mae. Ginnie Mae regularly monitors contractors with identified weaknesses to ensure that the weaknesses are resolved. The Office is the liaison between Ginnie Mae and HUD's Inspector General, the Office of Management and Budget, the General Accounting Office, the Department of the Treasury, and the U.S. Congress.

The Office of Multifamily Programs is responsible for the execution and management of all Ginnie Mae multifamily MBS programs and serves as the principal point of contact for multifamily issuers to ensure satisfactory working relationships with program participants and stakeholders. The Multifamily account executives handle all multifamily related activities from identifying and approving new issuers to the disposition of the acquired portfolios. The Office also represents Ginnie Mae's interests in the multifamily mortgage lending community and markets, and promotes new and existing multifamily products and programs.

Ginnie Mae account executives are available to help customers with all matters pertaining to Ginnie Mae multifamily programs. For assistance to customers, account executives can be reached by calling the following number:

- Multifamily MBS Issuers (202) 708-2043

The Office of Policy, Planning and Risk Management evaluates the effectiveness of Ginnie Mae's programs and products in order to refine their usefulness to the public and the mortgage industry. The Office formulates policy, develops products and identifies business risks, and develops controls and strategies for mitigating them. It also develops and tracks progress against strategic and annual business plans, and identifies staff development needs and training programs to meet those needs. In addition, through this office, customers have direct access to Ginnie Mae's Capital Markets Division and its expertise in

mortgage securities markets. Ginnie Mae's Capital Markets office ensures closer contact with, and improved services to, its securities customers on Wall Street.

The Office of Program Administration provides day-to-day operational support for the MBS program. The Office oversees the processing of a variety of actions initiated by Ginnie Mae's customers, manages and directs the activities of several major contractors that support program operations, and coordinates all information technology initiatives through the Chief Information Officer.

### Technology Improvements

In fiscal year 2000, Ginnie Mae further leveraged the benefits of information technology for the public and its customers. By continuing to incorporate technology into business and marketing processes, Ginnie Mae has improved its operational efficiencies and market capabilities. Among other vehicles, the World Wide Web has become an essential communications channel for educating and informing customers and the public. In fiscal year 2000, Ginnie Mae added the capability for web users to register for training on-line, and to access or download multiclass prospectuses. The Ginnie Mae Business Center centralizes and provides a substantial improvement in training capability and capacity for securities issuers. By leveraging new electronic data interchange technology, Ginnie Mae provides new opportunities for conducting business and interacting with customers. Following are some examples of how Ginnie Mae has integrated technology into its programs and services to enhance customer service and meet its mission:

**GinnieNet.** GinnieNet is Ginnie Mae's primary information network for conducting business with its customers. Over the past eight years, Ginnie Mae, with input from its business partners, has developed a system that supports multiple business transaction processes. GinnieNet users have been able to reduce their costs by millions

of dollars annually in the form of lower warehousing, staffing and mailing costs. GinnieNet Version 5.3 is providing users with additional savings in staffing and mailing costs as a result of further streamlining of Ginnie Mae's delivery and reporting processes. With efficiencies gained through electronic commerce, GinnieNet Version 5.3 provides issuers and document custodians with the ability to transact business with Ginnie Mae in a fully electronic environment using electronic signatures and encryption technology.

**Electronic Commerce.** The benefits of electronic commerce have helped Ginnie Mae to integrate and modernize its risk management system and provide more efficient services. Three separate risk systems have been consolidated into a single user-friendly, state-of-the-art, web-based system that is utilized by staff of Ginnie Mae, FHA, VA and RHS. The new system improves risk monitoring and eliminates data and system redundancies across multiple agencies, which should result in substantial cost savings among the participating agencies.

Ginnie Mae has established several other electronic commerce efforts to improve customer service and meet its mission. In a joint effort with Fannie Mae (FNMA), the Federal Home Loan Mortgage Corporation (FHLMC), and the Mortgage Bankers Association (MBA), Ginnie Mae implemented a user friendly e-commerce, web-based application to receive lenders' quarterly financial statements. Additionally, Ginnie Mae successfully tested a pilot program for (electronically) processing securities backed by multifamily loans. This initiative will reduce the time it takes to process a multifamily loan, resulting in cost savings in mailing and handling costs accruing to issuers and Ginnie Mae.

**Ginnie Mae Web Site.** Ginnie Mae redesigned its web site in fiscal year 2000 to provide issuers, homebuyers, mortgage finance industry participants, securities investors and other interested parties

with important and timely information about the Ginnie Mae MBS program. The web site also provides a variety of information about Ginnie Mae, its mission, organization and goals. A search engine has been added to the site to facilitate keyword searches. Important web resources include:

- Ginnie Mae annual reports;
- All Participants Memos;
- Ginnie Mae Mortgage-Backed Securities Guide 5500.3;
- Ginnie Mae Multiclass Securities Guide;
- Ginnie Mae Mortgage-Backed Securities Accounting Manual (newly updated);
- Ginnie Mae REMIC Prospectus (Offering Circular Supplements);
- On-line training materials for Single Family and Multifamily Issuers and Prospective Issuers;
- Targeted Lending Inquiries;
- Multifamily MBS database.

In addition, Ginnie Mae has added a section on its web site for children and teens. These pages are designed to teach young people, in an entertaining way, about the benefits of homeownership, thrift, and savings. The web site is located at [www.ginniemae.gov](http://www.ginniemae.gov).

**The Electronic Data Interchange Program.** The successful implementation of electronic data interchange (EDI) for issuers has further increased Ginnie Mae's efficiency and effectiveness in the quarterly investor reporting process. Issuers that have implemented EDI can use the same transaction set for investor reporting to Ginnie Mae, Freddie Mac, and Fannie Mae. In addition to the reduction of paper and duplicate reporting requirements, issuers receive faster feedback on the success of submissions and information about problems with reported data before the next quarterly cycle.

The web-EDI application is available on Ginnie Mae's web site by following the links from [www.ginniemae.gov](http://www.ginniemae.gov).

# IV.

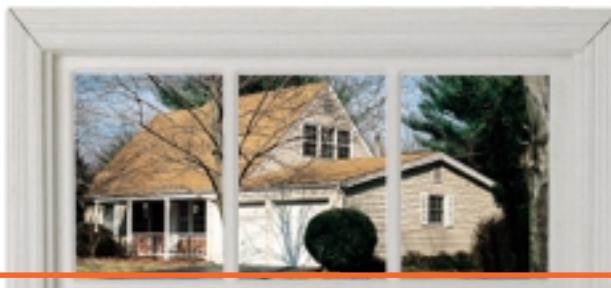
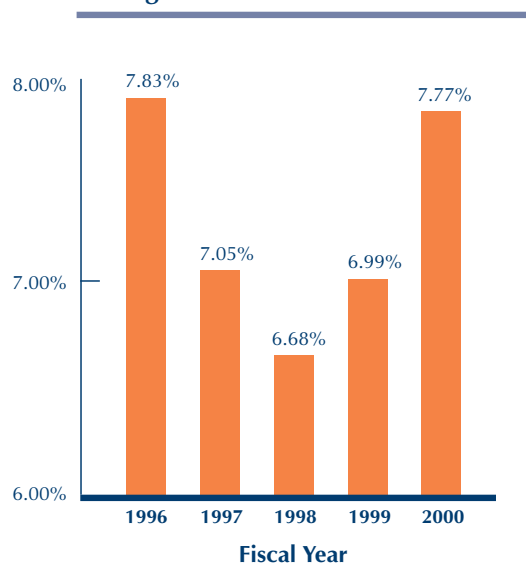
## Selected Programs and Recent Initiatives

### Selected Programs

#### MBS Program

Ginnie Mae's principal product is the MBS, the vehicle through which it helps to increase low- and moderate-income homeownership in America. Ginnie Mae MBS are created when mortgage loans are pooled by eligible issuers. Commonly referred to as "pass-through" certificates, these MBS entitle an investor to an undivided interest in the underlying mortgage loan pool. Thus, an investor receives a pro rata share of the interest (net of servicing and guaranty fees) and principal on the underlying mortgage loans. Through its MBS program, Ginnie Mae increases the liquidity and efficiency of mortgage loan funding, making more capital available to low- and moderate-income homeowners at competitive interest rates. The following chart represents the average rates on Ginnie Mae MBS originated during the past five years:

Average Rates on Ginnie Mae MBS



#### Ginnie Mae I MBS

Ginnie Mae I MBS are securities based on single-issuer pools and are Ginnie Mae's most heavily traded product. The underlying mortgages generally have the same or similar maturities and the same interest on the mortgages. Single family Ginnie Mae I pools have a 50 basis point (0.5 percent) guaranty and servicing fee. Ginnie Mae I payments are made to holders on the 15th day of each month.

The securitization provisions are established in the Ginnie Mae MBS guide (Ginnie Mae Handbook 5500.3). The Handbook can be found on Ginnie Mae's web site at [www.ginniemae.gov](http://www.ginniemae.gov).

#### Ginnie Mae II MBS

Ginnie Mae II MBS securities have been a useful tool for "pipeline management" for our issuers, and provide them with additional flexibility and liquidity. For example, these securities permit greater flexibility with respect to loan characteristics. Coupon rates on the underlying mortgages can vary between 50 and 150 basis points above the interest rate on the pool.

Both multiple-issuer and single-issuer pools are permitted in these securities. The Ginnie Mae II MBS also allow smaller issuers who do not meet the minimum dollar pool requirements of the Ginnie Mae I MBS to participate in the secondary mortgage market. The Ginnie Mae II MBS have a central paying and transfer agent which collects payments from all issuers and makes one consolidated payment each month to each security holder. Ginnie Mae II MBS pay on the 20th day of each month.

An issuer may participate in the Ginnie Mae II MBS either by issuing custom, single-issuer pools or multiple-issuer pools. A custom pool has a single issuer which originates and administers the entire pool. A multiple issuer pool typically combines loans with similar characteristics. The resulting pool backs a single MBS issue and each participant is responsible for administering the mortgage loans which contribute to the pool. The securitization provisions are established in the Ginnie Mae MBS guide (Ginnie Mae Handbook 5500.3), which may be found on Ginnie Mae's web site at [www.ginniemae.gov](http://www.ginniemae.gov).

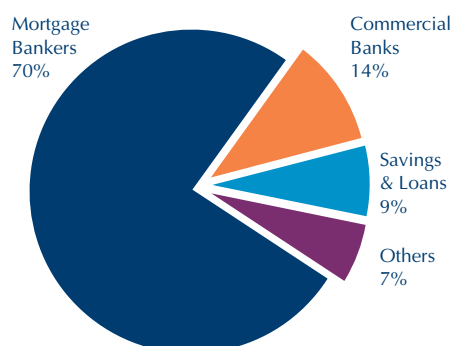
### MBS Highlights

Ginnie Mae issued \$87.5 billion in new MBS commitment authority in fiscal year 2000, a 56.2 percent decrease from fiscal year 1999. Ginnie Mae guaranteed \$105.5 billion of MBS during fiscal year 2000, representing a decrease of 35.5 percent from the prior year. This development reflects a decline in secondary mortgage market activity as a result of higher interest rates.

Of the \$105.5 billion of MBS guaranteed, over \$101.2 billion was backed by single family mortgages, \$4.3 billion was backed by multifamily construction and project loans, and \$3 million was backed by manufactured housing loans.

Delinquency ratios for the MBS pooled mortgages increased in the single family and manufactured housing programs and decreased in the multifamily program when compared to the previous fiscal year. Ginnie Mae continues to monitor issuers through the Issuer Portfolio Analysis Database System (IPADS) for unusual fluctua-

### MBS Program Participants



tions in portfolio delinquency rates. From fiscal year 1998 to fiscal year 2000, the three-month delinquency rate in the single family program increased from 1.52 percent to 1.80 percent. The three-month delinquency rate in the manufactured housing program increased from 3.00 percent to 3.35 percent. A combination of market factors and a slowing economy contributed to these increases. The two-month delinquency rate in the multifamily program decreased from 0.58 percent to 0.53 percent.

### Asset Management

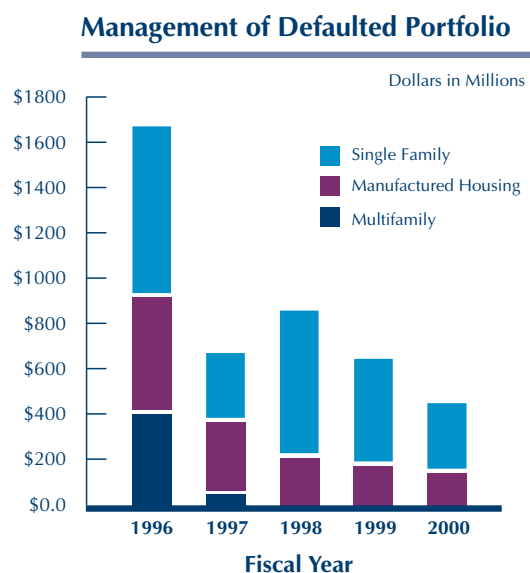
By the end of fiscal year 2000, Ginnie Mae had an acquired single family portfolio of \$315 million, a decrease of 13 percent from fiscal year 1999. During the year, there were two single family defaults totaling a principal balance of \$52 million, compared to \$108 million in fiscal year 1999. Overall, the acquired single family portfolio represents 0.05 percent of the total single family remaining principal balance outstanding for the Ginnie Mae MBS program, compared to 0.06 percent in fiscal year 1999. The following table details the issuer defaults:

Issuer Defaults by Program Type, by Fiscal Year					in Millions
Program Type	2000	1999	1998	1997	1996
Single Family	\$ 52.1	\$108.0	\$ 8.3	\$350.6	\$ 60.6
Multifamily	0.7	—	—	—	—
Manufactured Housing	—	0.3	0.3	—	—
<b>Total</b>	<b>\$ 52.8</b>	<b>\$108.3</b>	<b>\$ 8.6</b>	<b>\$350.6</b>	<b>\$ 60.6</b>

The manufactured housing acquired portfolio experienced a 24 percent decrease during the year to \$89.3 million at September 30, 2000. The decrease reflects normal runoff and amortization activity. Overall, the manufactured housing acquired portfolio represents 12 percent of the total manufactured housing remaining principal balance outstanding.

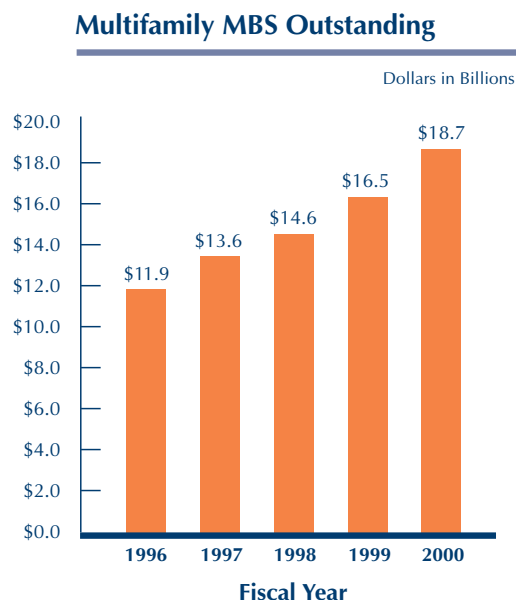
Since the inception of the Multifamily MBS program, Ginnie Mae has guaranteed the issuance of approximately \$42.2 billion in multifamily securities. The Multifamily MBS program experienced a banner year in fiscal year 2000 in which issuances of new securities increased, delinquencies decreased and fiscal year issuances established an annual record. Outstanding securities in the multifamily program increased in fiscal year 2000 by over 13 percent to a record \$18.7 billion. The ratio of delinquent multifamily loans in Ginnie Mae multifamily pools decreased to 0.53 percent from 0.58 percent the previous year, an 8.6 percent decline.

The following chart describes the overall management of Ginnie Mae's defaulted portfolio, for single family, manufactured and multifamily housing for fiscal years 1996 through 2000:



With increased promotion of the multifamily programs, the percentage of eligible FHA multifamily loans securitized in Ginnie Mae MBS increased from 81 percent in fiscal year 1998 to 100 percent in fiscal year 2000. Multifamily Remaining Principal Balance (RPB) has grown 57 percent over the last five years.

The following chart represents the growth of the multifamily MBS outstanding program:



## Multiclass Products

Ginnie Mae's full faith and credit guaranty was important to investors during fiscal year 2000, as buyers of mortgage securities recognized that scheduled interest and principal on Ginnie Mae MBS and Real Estate Mortgage Investment Conduits (REMIC) are guaranteed by the full faith and credit of the United States Government.

Multiclass products include REMIC and Ginnie Mae Platinum securities. The volume of multiclass products issued by Ginnie Mae grew significantly in fiscal year 2000, another record year and the sixth consecutive year of volume increase for REMICs. The purposes of REMICs are to increase the investor base for Ginnie Mae securities and support the price of Ginnie Mae MBS, which in turn helps to

provide greater liquidity to the secondary mortgage market. Ginnie Mae guaranteed 44 REMIC transactions in 2000, totaling \$25 billion, up from \$19.9 billion in 1999. Ginnie Mae also continued to build a strong position in REMIC issuance on a global basis by continuing to offer the flexibility of the MX (modifiable and exchangeable) option to its REMIC Sponsor group. This gives investors the option to exchange REMIC securities for MX securities that more closely match their investment requirements. Although the volume of REMICs increased, total multiclass fee income decreased 26 percent from the prior fiscal year. This decrease occurred because of reduced Ginnie Mae Platinum volume.

The Ginnie Mae Platinum product stabilized in fiscal year 2000 after a year of dramatic growth in fiscal year 1999. The Platinum product provides customers the ability to trade a group of small pools for one large pool. Platinum transactions decreased 43 percent to \$16.9 billion while the transaction size averaged well over \$140 million. Transactions decreased because alternative investment products provided higher returns to investors.

## Recent Initiatives

In response to the rapidly changing mortgage finance market, Ginnie Mae has increased its efforts to bring new products to the marketplace. Through leadership in the mortgage markets, Ginnie Mae seeks to offer its customers the highest quality advice, service, and securities transactions. Ginnie Mae's objective is to gradually shift its business mix to increase the number of product sponsors and the stability of volume growth. Ginnie Mae will continue to introduce new lines and expand existing products to attract and retain customers and meet its mission. Examples of Ginnie Mae's recent initiatives follow:

### Capital Markets

In 1998, Ginnie Mae established a Capital Markets Office in New York to enhance its

ability to serve its customers, provide outreach on products and services, and help them respond to increased market volatility. In 1999, Ginnie Mae completed staffing of its New York office and strengthened its commitment to serving capital markets customers. Today, working closely with customers and other market participants, Ginnie Mae successfully provides a full range of products and services, as well as industry support, through the Capital Markets Office. This achievement has helped Ginnie Mae meet its strategic goals of customer service and industry leadership.

### Ginnie Mae's Depository

During fiscal year 2000, Ginnie Mae also decided to move its depository from the Depository Trust Clearing Corporation to the Federal Reserve Bank of New York. Ginnie Mae and its business partners will use the Federal Reserve's existing systems, with modification, to issue, settle and trade Ginnie Mae securities. This is a major change that will impact financial institutions that originate and trade Ginnie Mae securities. Due to the magnitude of the change, this project will take approximately 18 months to implement. Both a project plan and business requirements have been developed to successfully execute this strategic shift, which will bring about improved efficiency and customer service. Ginnie Mae is well on its way to meeting the new system's implementation milestones.

### Targeted Lending Initiative

Ginnie Mae has expanded its Targeted Lending Initiative (TLI) to include Rural Empowerment Zones and Rural Enterprise Communities. The expansion of this initiative allows lenders to offer more competitive interest rates on mortgages for properties located in the targeted areas. A listing of the targeted areas and the census tracts may be accessed on Ginnie Mae's web site, at [www.ginniemae.gov](http://www.ginniemae.gov).

Ginnie Mae implemented its TLI in fiscal year 1997 to help raise homeownership

levels in central city areas. The Initiative was expanded in 1999 to include Indian lands, new Urban Empowerment Zones, and new Urban Enterprise Communities. This program provides financial incentives for lenders to increase loan volumes in traditionally underserved areas. By increasing lender activity in these targeted areas, Ginnie Mae provides underserved families and households with increased opportunities to achieve homeownership. In four years of operation (October 1, 1996 - September 30, 2000), the Targeted Lending Initiative has issued \$15.5 billion in securities, representing 163,155 loans in 7,758 pools.

Under the Initiative, Ginnie Mae reduces its guaranty fee by up to 50 percent when approved issuers originate (or purchase) eligible home mortgage loans in designated communities and place them in Ginnie Mae pools. The Ginnie Mae guaranty fee may be reduced by 1 to 3 basis points on a pool, depending on the percentage of unpaid principal balance of eligible FHA-insured and VA-guaranteed loans in the pool. Issuers may combine these newly eligible loans with other targeted lending single family loans, other than manufactured housing loans, to meet the previously established targeted lending thresholds.

All Ginnie Mae single family issuers may participate in the Initiative. Once a Ginnie Mae issuer has originated or purchased eligible loans, the issuer merely submits the pool package through Ginnie Mae's GinnieNet delivery system. Issuers will receive a confirmation from Ginnie Mae of their reduced guaranty fee, as applicable.

### **Native American Home Loan Guarantee Program**

HUD's Native American Home Loan Guarantee program (Section 184), administered by the Office of Public and Indian Housing, provides Native Americans with an effective vehicle for obtaining mortgage financing. This program offers a 100 percent federal loan guarantee to

lenders, which Ginnie Mae supports by including eligibility of these loans in single family Ginnie Mae I and Ginnie Mae II pools.

Section 184 loans offer the mortgage community (lenders and issuers) a secure means to establish solid relationships with underserved Native American families and communities and, in addition, serve as a product for use with Community Reinvestment Act (CRA) lending programs.

### **View of the Future**

During fiscal year 2001, Ginnie Mae will continue to facilitate increased homeownership in urban areas through the success of such programs as its TLI. Such efforts will be in addition to continued improvements in customer service and new product innovation.

Ginnie Mae will develop and implement policies and procedures that improve program efficiency and customer service. Through new product offerings and reductions in guaranty fees, Ginnie Mae continually strives to make its programs attractive to investors in the capital markets. Additionally, Ginnie Mae continues to make organizational improvements in its business through internal and external reviews of its operations and managing the corporation as a results-oriented, customer driven organization. These efforts will continue to strengthen Ginnie Mae's program and financial position and ensure its ability to meet its mission.

Moreover, in fiscal year 2001, management's priorities will include making greater use of information technology to improve processes and products, enhancing services to clients, and strengthening other ways Ginnie Mae does business. Ginnie Mae will endeavor to face the challenges of the future with confidence, and with innovative solutions and products, while striving to serve its vital role in the provision of mortgage credit for low- and moderate-income American families.

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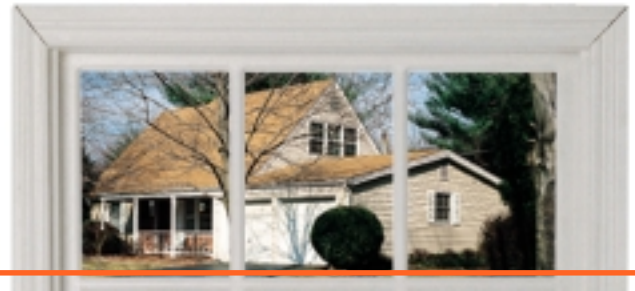
## Management's Discussion and Analysis of Financial Position and Results of Operations

### Financial Highlights of 2000

Fiscal year 2000 was another year of very favorable financial achievement marked by increases in both revenues and assets. Ginnie Mae achieved record net income of \$762.8 million, a 2.1 percent increase from \$746.8 million in fiscal year 1999. Revenues increased by 4.2 percent, to \$832 million from \$798.6 million in 1999, and total assets increased 11.2 percent, to \$7.9 billion from \$7.1 billion in fiscal year 1999. These growth rates reflect strengthened financial management and the continued growth in Ginnie Mae's MBS programs during fiscal year 2000.

Despite a difficult year in the mortgage market, Ginnie Mae still provided the market with important services and contributed to a stable environment. The outstanding MBS portfolio increased, which generated increased guaranty and commitment fee revenues. In fiscal year 2000, MBS program income rose to \$408.3 million from \$408.2 million in fiscal year 1999. Due to Ginnie Mae's strong program management, total expenses as a percentage of total revenues decreased from 6.5 percent in fiscal year 1999 to 5.7 percent in fiscal year 2000.

Ginnie Mae issued \$87.5 billion in commitment authority in fiscal year 2000, a 56.2 percent decrease from fiscal year 1999. The \$105.5 billion of MBS issued in fiscal year 2000 represented a 35.5 percent



decrease in MBS issued from fiscal year 1999. The outstanding MBS balance at the end of fiscal year 2000 was \$603.5 billion, a 6 percent increase over the previous year. Fiscal year 2000 production provided the capital to finance the purchase or refinance of homes for approximately 1.1 million American families.

Ginnie Mae has continued its strong financial performance during fiscal year 2000 and produced continued growth in revenue. Excess revenues over expenses are invested in U.S. Government securities. To date, Ginnie Mae's earnings and fund balance have provided the capital to finance its operations and, as a result, Ginnie Mae has not needed to obtain funds through federal appropriations.

The following chart illustrates Ginnie Mae's revenue growth in the past five years:



To assist readers in understanding Ginnie Mae's recent financial history, the following table provides three year financial highlights of the corporation:

Three-Year Financial Highlights			
	2000	1999	1998
(Dollars in thousands)			
<b>Balance Sheet and Liquidity Analysis</b>			
September 30,			
Funds with U.S. Treasury	\$ 1,617,600	\$ 1,210,800	\$ 778,700
U.S. Government Securities	\$ 6,171,000	\$ 5,778,000	\$ 5,448,300
Total Assets	\$ 7,919,200	\$ 7,123,300	\$ 6,366,400
Investment of U.S. Government	\$ 7,318,900	\$ 6,556,100	\$ 5,809,300
Total Liabilities	\$ 600,300	\$ 567,200	\$ 557,100
Total RPB Outstanding (1)	\$603,471,487	\$569,649,659	\$542,206,575
LLR (2) and Investment of U.S. Government	\$ 7,852,200	\$ 7,059,400	\$ 6,320,500
Investment of U.S. Government as a percentage of Average Total Assets	97.00%	97.20%	96.43%
LLR and Investment of U.S. Government as a percentage of RPB	1.30%	1.24%	1.17%
Capital Adequacy Ratio (3)	1.28%	1.22%	1.15%
<b>Statement of Revenues and Expenses and Profitability Ratios</b>			
Year Ended September 30,			
Revenues	\$ 832,000	\$ 798,600	\$ 767,400
Excess of Revenues over Expenses	\$ 762,800	\$ 746,800	\$ 674,700
MBS Program Income	\$ 408,200	\$ 405,000	\$ 392,300
Interest Income	\$ 415,800	\$ 380,300	\$ 362,700
Total Expenses	\$ 47,200	\$ 51,800	\$ 45,600
MBS Program Expenses	\$ 37,900	\$ 42,500	\$ 36,300
Administrative and Other Expenses	\$ 9,300	\$ 9,300	\$ 9,300
Provision for Loss	\$ 22,000	\$ —	\$ 47,100
Total Expense as a percentage of Average RPB	0.0078%	0.0093%	0.0085%
Provision for Loss as a percentage of Average RPB	0.0038%	—	0.0090%

(1) Remaining Principal Balance (RPB) of Ginnie Mae MBS

(2) Loan Loss Reserve (LLR)

(3) Investment of U.S. Government plus Loan Loss Reserve divided by the sum of Total Assets and Remaining Principal Balance

## Results of Operations

Ginnie Mae believes that the following discussion will provide the reader with information that is relevant to an assessment and understanding of Ginnie Mae's financial condition and of the results of operations. The discussion should be read in conjunction with the financial statements and notes thereto. Ginnie Mae's operating results are subject to fluctuation each year depending on the frequency and severity of losses resulting from general economic conditions, mortgage market conditions, and terminating issuers.

### MBS Program Income

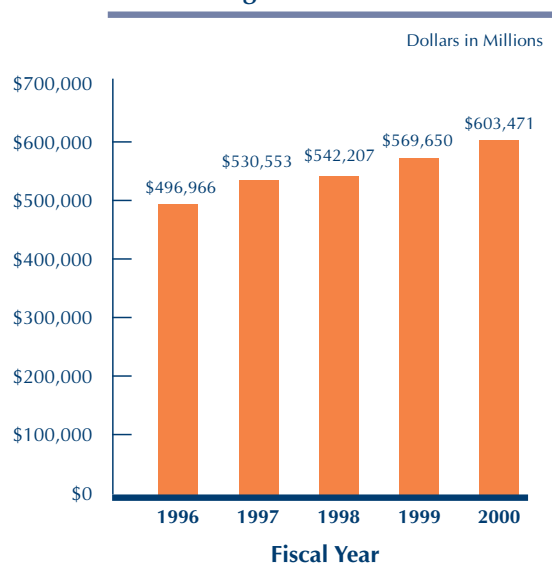
MBS program income includes Guaranty Fees, New Issuer Fees, Commitment Fees, Handling Fees, and Transfer of Servicing Fees. Guaranty Fees and Commitment Fees comprise over 95 percent of total MBS program revenues. Guaranty Fees represent income streams earned for providing Ginnie Mae's guaranty of the full faith and credit of the U.S. Government to MBS issuers. These income streams are recognized over the life of the outstanding mortgage-backed securities. Commitment Fees represent income that Ginnie Mae earns for providing approved issuers with authority to pool mortgages into Ginnie Mae mortgage-backed securities.

Commitment Fees decreased 54.4 percent from \$37.1 million in fiscal year 1999 to \$16.9 million in fiscal year 2000. This decrease resulted from a decline in MBS issuance activity. New commitments issued by Ginnie Mae amounted to \$87.5 billion during fiscal year 2000, a 56 percent decrease from fiscal year 1999.

Steady growth in the MBS portfolio was responsible for the increase in MBS program income. MBS Guaranty Fees increased 6.6 percent to \$370.3 million in fiscal year 2000 from \$347.4 million in fiscal year 1999. The Guaranty Fees are collected on the aggregate principal balance of the guaranteed securities outstanding of the non-defaulted issuer portfolio.

The following chart represents the remaining principal balance outstanding of the MBS portfolio as of September 30, 2000:

**Remaining Principal Balance Outstanding of the MBS Portfolio**



### Interest Income

Ginnie Mae funds its investment portfolio through its excess revenues over expenses. As a result, the corresponding interest income has steadily increased over the past five years. For fiscal year 2000, interest income increased approximately 9.3 percent to \$415.8 million from \$380.3 million in fiscal year 1999. This increase is directly related to Ginnie Mae's investment strategy and the success of its increasing investment portfolio. Ginnie Mae invests the excess of its accumulated revenues over expenses only in U.S. Government securities, as mandated by the U.S. Treasury.

### Multiclass Revenues and Miscellaneous Income

Multiclass revenue is part of the MBS program revenues and is composed of REMIC and Platinum program fees. Miscellaneous income, also a component of

the MBS program revenues, is earned from the Ginnie Mae II portfolio. Together, multiclass revenue and miscellaneous income comprise Ginnie Mae's "Other Income." The Other Income balance fluctuates based on market conditions and issuance activity. Ginnie Mae issued approximately \$16.9 billion in Platinum products in fiscal year 2000. Fees amounted to \$11.7 million, representing a 42 percent decrease in fee income from the previous year. Fees from REMIC securities amounted to \$8.5 million on \$2.5 billion in issuance for those products, representing an increase of 23 percent in fee income. Ginnie Mae recognized a portion of the REMIC, Callable Trust, and Platinum program fees in the period the fees are received, with the balance deferred and amortized as Other Income over the remaining life of the financial investment.

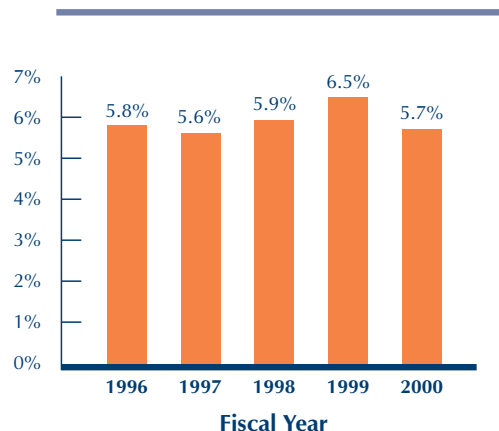
### **MBS Program and Administrative Expenses**

MBS program and administrative expenses are incurred to carry out Ginnie Mae's programs and initiatives. These costs include contractor services, personnel, compensation, printing, and other administrative functions. MBS program and administrative expenses decreased from \$51.8 million in fiscal year 1999 to \$47.2 million in fiscal year 2000, representing a decrease of 8.9 percent.

The decrease in expenses is attributable to the savings that resulted from cost effective program activities. Ginnie Mae's ability to effectively administer its programs is further illustrated by the decrease of rates of total expenses as a percentage of total revenues from 6.5 percent in fiscal year 1999 to 5.7 percent in fiscal year 2000. Expenses as a percentage of total revenues have ranged over the last five years from 5.6 percent to 6.5 percent. Additionally, MBS program and administrative expenses as a percentage of average RPB grew slightly over the last five years from 0.0077 percent to 0.0078 percent.

The following chart depicts MBS program and administrative expenses as a percentage of gross revenues:

**Expenses as a Percentage of Gross Revenues**



### **Credit Related Expenses**

Credit related expenses include Ginnie Mae's provision for loss and defaulted issuer portfolio costs. The provision for loss is charged against income in an amount considered appropriate to maintain reserves for losses at levels management determines adequate to absorb potential losses from defaulted issuer portfolios and program losses. Based on management's assessment of reserve adequacy, a provision for loss was made in fiscal year 2000 for \$22 million, whereas no provision for loss was necessary in the prior year.

### **Financial Models**

Ginnie Mae's Policy and Financial Analysis Model (PFAM) provides information regarding the organization's projected financial position by estimating current and future cash flows based on econometrically estimated claim and prepayment rates and a simulation of issuer default behavior. Using the PFAM, Ginnie Mae evaluates the adequacy of its capital and reserve for loss under a variety of economic conditions to understand the financial implications of business decisions.

In fiscal year 2000, Ginnie Mae made several enhancements to the PFAM and its associated analyses. Comprehensive loan level data was obtained from existing FHA, VA and Ginnie Mae sources and integrated with the most up-to-date economic and policy forecasts to estimate loan and issuer performance, and to forecast Ginnie Mae's financial position under various scenarios.

With assistance from FHA, Ginnie Mae was able to obtain a detailed segmentation of the loans according to key risk indicators, including loan size and loan-to-value ratios. The loan segmentation was derived from an analysis of historical data, and it enabled Ginnie Mae to accurately map the current risk profile of the collateral supporting its guaranteed mortgage-backed securities.

For the first time, in fiscal year 2000, the PFAM financial projections were supplemented by a detailed analysis of the composition of Ginnie Mae's guaranteed portfolio. This analysis focused on the remaining principal balance of the collateral supporting Ginnie Mae's guaranteed mortgage-backed securities and the key economic drivers affecting its performance. This supplemental analysis provided Ginnie Mae's management with a detailed assessment of the risks and opportunities embedded in Ginnie Mae's guaranteed portfolio with respect to loan types, security types and sources of collateral origination. Ginnie Mae has also modified the PFAM to accommodate the use of OMB's new Credit Subsidy Calculator. The modifications allow Ginnie Mae to calculate credit subsidy rates for future books of business.

### Liquidity

Ginnie Mae's role in supporting expanded affordable housing in America through secondary market vehicles is ongoing through the use of the guaranty of the full faith and credit of the U.S. Government. Liquid assets further Ginnie Mae's initiatives, and these needs are driven by the development of new secondary market vehicles, the timely payment of pass-throughs to security

holders, and general operations. Through successful cash management, program management and commitment to cost containment, Ginnie Mae has not been required to obtain appropriations or other debt financing services.

The table below describes the composition and maturity of Ginnie Mae's Treasury securities:

Composition of Treasury Securities by Fiscal Year		
Percent of Total	2000	1999
Due within 1 year	21%	21%
Due after 1-5 years	60%	50%
Due after 5-10 years	19%	29%

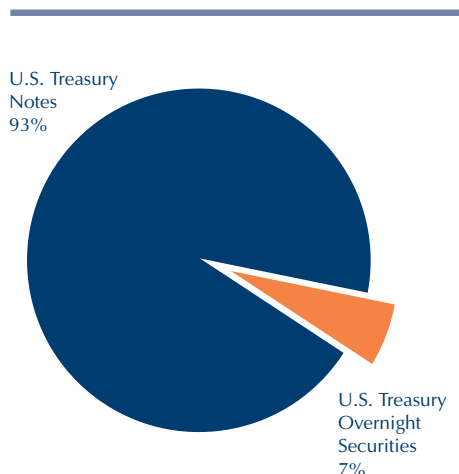
Ginnie Mae's primary sources of cash are MBS and Multiclass Guaranty Fee Income, Commitment Fee Income and Interest Income. After accounting for expenses and other factors, on September 30, 2000, Ginnie Mae reported funds in the U.S. Treasury of \$1.62 billion compared with \$1.21 billion on September 30, 1999. The increase in funds in the Treasury is influenced by the Credit Reform Act of 1990. This Act requires that Ginnie Mae segregate funds held with the U.S. Treasury between Liquidating and Financing accounts. Funds received from activity originating prior to fiscal year 1991 are accounted for in the Liquidating accounts, while funds received from MBS fees for activity originating after fiscal year 1991 are maintained in the Financing accounts. For Credit Reform purposes, funds in the Financing account are deposited into an interest bearing account with the U.S. Treasury.

In addition to the funds in the U.S. Treasury, Ginnie Mae's investments totaled \$6.17 billion, compared with \$5.78 billion in the prior year. Throughout 2000, Ginnie Mae used an investment strategy that increased interest income while shortening its average maturity to lower market risk. Of the \$6.17 billion investment balance at September 30, 2000, \$457.3 million was held in overnight certificates. The balance of the portfolio's maturities are spread over time to ensure that Ginnie Mae has a ready

source of funds to meet various liquidity needs. Emergency liquidity needs are met through short-term maturities.

The following chart illustrates the components of Ginnie Mae's Investments in U.S. Government Securities at September 30, 2000:

**Components of Investment in U.S. Government Securities**



### Capital Adequacy

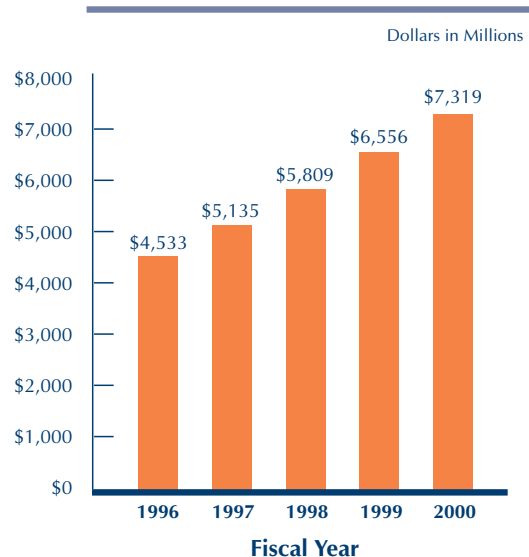
Ginnie Mae's activities involving the guaranty of MBS have historically operated at a profit. Ginnie Mae has never had to exercise its authority to borrow funds from the U.S. Treasury to finance its operations. Ginnie Mae's net income continues to build and strengthen the Corporation's capital base and programs. Ginnie Mae believes it maintains adequate capital to withstand downturns in the housing market that could cause severe issuer defaults. Ginnie Mae's capital is backed by the full faith and credit guaranty of the U.S. Government.

As of September 30, 2000, Ginnie Mae had an Investment of U.S. Government balance of \$7.3 billion after establishing reserves for losses on its credit activities, compared with \$6.6 billion as of September 30, 1999. Ginnie Mae's net earnings are used to build reserves which it believes to be sound. Over the past three years, Ginnie Mae has increased its capital adequacy ratio (Investment of U.S. Government plus loan loss reserve as a percentage of total assets and RPB) from 1.15 percent to

1.28 percent. To assess the strength of its capital position, Ginnie Mae uses a "stress test" methodology that measures Ginnie Mae's ability to withstand severe economic conditions.

The following chart describes Ginnie Mae's Capital Reserves (Investment of U.S. Government) in the last five years:

**Capital Reserves (Investment of U.S. Government)**



### Risk Management

Ginnie Mae continues to enhance its automated systems and business processes to increase the efficiency of its operations and to reduce its business risk. During fiscal year 2000, Ginnie Mae continued periodic reviews of all master subservicers to assure compliance with the terms and conditions of their servicing contracts with Ginnie Mae. Additionally, the audits and reviews provided Ginnie Mae with a mechanism for continuing to strengthen its internal controls and minimize risks.

### Compliance with the CFO Act

Ginnie Mae has prepared a separate management report in compliance with the Chief Financial Officers Act of 1990 that contains detailed information. It is available upon request from the Ginnie Mae Office of Finance at (202) 401-2064.